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SUBJECT: NATIXIS: A NEW FRENCH FINANCE NATIONAL CHAMPION

¶1. SUMMARY. The GOF has given the green light to a new joint subsidiary between the French Caisses d'Epargne and the Banque Populaire banking groups, creating NatIxis. With 500 billion euros (USD 640 billion) in assets managed, NatIxis has the potential to become a significant player in the finance and investment banking services sector in France and throughout the rest of Europe. End summary.

GOF approves Financial Restructuring

¶2. On August 5, the Government Shareholding Agency ("Commission des Participations et des Transferts") approved the transfer of a stake held by the Caisse des Depots et Consignations (CDC), the state-owned financial conglomerate, to the Caisse Nationale d'Epargne (CNCE), the parent company of Caisses d'Epargne. This approval removed a key obstacle (namely, CDC opposition) to the formation of a joint subsidiary between two mutually-owned financial service providers, the Caisses d'Epargne and the Banque Populaire.

¶3. Although the transfer did not amount to a privatization, Finance Minister Thierry Breton had asked for its approval in order to quiet any controversy surrounding the transaction. Caisses d'Epargne - often called "L'Ecureuil" after its squirrel logo - initially had been blocked in its plans to create NatIxis by opposition from CDC, its parent company, which had special veto rights. CDC President Francis Mayer had condemned the transaction as "imbalanced to the detriment of the Caisse d'Epargne group, and opposed to CDC interests as a stakeholder in the group." CDC was put off by the change in the group's objective to be listed on Euronext, "a complete and sudden change in its strategy," said Mayer. CDC eventually agreed to sell its 35 percent stake in CNCE, allowing the Caisses d'Epargne group to retain full control of CNCE, and L'Ecureuil to separate from CDC.

¶4. The decisive factor for CDC was the offer by L'Ecureuil to pay 6.8 billion euros including a transfer of assets. The price includes a 15 percent premium (when 2006 dividends are excluded) according to Caisses d'Epargne, or a 25 percent premium (including dividends) according to CDC, in any case higher than what the GOF would have gotten in a regular privatization. The Commission ruled that "the value and modalities of the transfer of assets are not unfavorable to CDC's patrimonial interests," but nonetheless urged vigilance when it came time to assigning final prices to assets, particularly for the real estate stakes.

NatIxis and Natexis - Who is Who?

¶5. The new joint subsidiary will be called "NatIxis", which may

prove confusingly similar to Natexis Banques Populaires, a subsidiary of the Banque Populaire group. Natixis' name comes from the first three letters of Natexis, and Ixis, the name of CNCE's subsidiaries.

¶16. Natexis Banques Populaires is Banque Populaire Group's financing, investment banking and service bank. It is listed on Euronext, and has sites in France, Europe, America, Africa, Asia and Oceania. Natexis's shares are held by the Banque Federale des Banques Populaires (74.97 percent), public (16.28 percent), other financial institutions (7.41 percent) and by employees (1.34 percent).

¶17. Caisses d'Epargne's subsidiaries involved in the Natixis project include Ixis Corporate & Investment Bank; IXIS Asset Management Group and CIBG in the finance and investment banking sector; Credit Foncier and CEFI in the specialist banking services sector; and Compagnie 1818 in the private asset management.

¶18. CDC serves as the government's investment bank, and also oversees tax-exempt savings funds collected by L'Ecureuil and Banque Postale. CDC allowed L'Ecureuil to gain autonomy by selling its 35 percent stake in CNCE. As part of the transactions, CDC lost its indirect 50 percent stake in "L'Ecureuil vie", the life insurance subsidiary of L'Ecureuil, but will retrieve it as part of assets given by L'Ecureuil. CDC will bring L'Ecureuil vie to insurance company CNP, which will get full control of L'Ecureuil vie. CDC will raise its stake in CNP from 37 percent to 40 percent. L'Ecureuil has a 17.85 percent stake in CNP, and agreed on the renewal of commercial agreements with CNP up to 2015.

NATIXIS: A Major Player

¶19. In March 2006, the Caisses d'Epargne and the Banque Populaire groups agreed on the outlines of creating a new vehicle - a joint

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subsidiary - for their financial assets and investment banking activities. The goal, to expand through combining forces, rides the current tide of European consolidation. Natixis will begin operations on January 1, 2007. It will be publicly listed, but will be jointly and equally controlled by Banque Populaire and Caisses d'Epargne (each will retain a 34 percent share in equity and voting rights for ten years).

¶10. Natixis is designed to create a heavyweight in the financial and investment banking services sector, while allowing its partners to conserve their own retail banking businesses. Natixis will have the "critical" size needed to rival other large French banks, notably Credit Agricole, Societe Generale and BNP Paribas, which have established international franchises. With 500 billion euros in assets, Natixis will become the French leader in asset management. Natixis will also hold the number one position in the French employees' savings system ("epargne salariale"). Thanks to Natexis Banques Populaires' subsidiary COFACE, which provides credit insurance and credit management services to French companies, Natixis will become the number two credit insurer in Europe and the number three in the world. Natixis will have an estimated market capitalization of 25 billion euros (USD 32 billion).

Comment

¶11. Natixis will be a strong competitor among financing and investment banks, offering assets management, insurance and specialized financial services in the French domestic market. It will have the potential to develop internationally, the most likely route for expansion for French banks. The French banking system is already largely consolidated, with the six largest banks managing 90 percent of deposits. Among those banks, Credit Agricole, which has just acquired a 72 percent stake in the Greek bank Empiroki, has plans to devote 5 billion euros (USD 6.4 billion) to acquisitions abroad by the end of 2008. BNP Paribas plans to develop in Italy and in the United States. Societe Generale's objective is to continue its expansion in Eastern Europe.

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